Financial Report

OF

GEO. A. HORMEL & COMPANY

AUSTIN, MINNESOTA

for the

Fiscal Year Ended October 26, 1935

Austin, Minnesota
November 19th, 1935

To the Stockholders of
Geo. A. Hormel & Company

The earnings statement and balance sheet of your company for the year ended October 26, 1935, is submitted herewith.

For the first time in more than a decade, the actual tonnage volume of business has fallen off. Total sales amounted to 336,259,669 pounds, which is a decrease of 4,328,027 pounds, or 1.27 per cent, as compared to last year. However, this is still an increase of 51,140,305 pounds, or 15 per cent, over the average for the previous five years.

This decrease as compared with last year is due largely to the lessened supplies of live stock, particularly hogs. As the hog population is rehabilitated, it is expected this loss in volume will be regained. Meanwhile, attention has been given to promoting the volume of business in chili con carne, soups, and other canned goods, as well as other meat products. This should stand as increased volume of business for the company when hog supplies have returned to normal.

Because of the lessened supplies of pork products, prices have been much higher than a year ago. This increase in value of meat products has combined with the increased tonnage in commodities other than pork to produce a dollar sales value for the year of $47,641,333.47 an increase of 14,260,908.93, or 42 per cent, over a year ago. This is the highest volume of dollar sales value ever attained by the company.

Due to the narrow spread between the price of live animals and the price of the product they produced, and due to higher taxes and the greater operating costs caused by increased wages and restricted volume, actual day by day operations throughout this year have not been profitable. However, a company engaged in the packing business must at all times have on hand substantial quantities of meat in the process of cure and distribution. The very ownership of this inventory is a substantial factor in earnings on a rising market, such as we have had during the past twenty-four months, or it may cause a substantial loss, as it did during the year 1931. In spite of inventory gains this year, the earnings were $121,000 less than last year.

We are continuing to price our inventories at the lower of cost or market, as has been our custom in the past.

All known bad debts have been charged off in full. Loss on capital assets scrapped or disposed of has been charged off in full. $269,297.11 has been charged off for depreciation on plant and equipment.

The balance sheet carries substantial reserves for other contingencies. Continuing high taxes have been provided for. Taxes to be levied under the provisions of the new Federal Social Security Bill do not begin to accrue until 1936 for unemployment insurance, and not until 1937 for the old-age pension plan, but it is noteworthy that if the maximum levies under the Social Security Bill had been in effect during the year just closed, an additional tax of approximately a quarter of a million dollars would have been incurred.

The net worth of the company stands at $9,286,438.02, which is

(Continued on Last Page)

CONSOLIDATED

Geo. A. Hormel & Company, - A

ASSETS

October 2

CURRENT:			
Cash		$1,281,303.07	
Accounts receivable:			
Customers' accounts	$1,983,420.07		
U. S. Government for processing tax on export shipments, etc.	114,623.77		
Sundry current accounts	25,990.06		
	$2,124,033.90		
Less allowance for doubtful	100,000.00	2,024,033.90	
Inventories:			
Products, materials and supplies on hand, on consignment and in transit—valued on the basis of the lower of cost or market		3,747,386.91	$ 7,052,723.88
OTHER ASSETS:			
Sundry notes and accounts	$ 52,758.12		
Sundry securities	67,791.94		
	$ 120,550.06		
Less allowance for possible loss in liquidation	68,933.59	$ 51,616.47	
Employees stock purchase notes	$ 17,538.65		
Employees' notes, accounts and advances	11,783.52	29,322.17	
Officers' accounts		480.15	
Contracts for sale of real estate		22,157.65	
Real estate—other than plant, less allowance for depreciation of $10,442.30		121,528.55	225,104.99
PERMANENT—at cost			
Land		$ 175,231.63	
Buildings, machinery and equipment	$6,631,227.72		
Less allowance for depreciation	1,712,185.17	4,919,042.55	5,094,274.18
PREPAID:			
Plant Supplies		$ 57,001.62	
Unexpired insurance and sundry prepaid expenses		50,543.77	107,545.39
			$12,479,648.44

GEO. A. HORMEL & COMPANY, Austin, Minnesota
Gentlemen:

We have made an examination of the consolidated balance sheet of GEO. A. HORMEL & COMP
surplus for the fifty-two weeks ended at that date. In connection therewith we examined or tested accou
tions from officers and employees of the Companies: we also made a review of the accounting methods and of t

Depreciation has been provided in accordance with rates previously established by the Compani
current assets of the Mexican subsidiary have been adjusted to current rate of exchange.

The accompanying statements consolidated for the first time the assets, liabilities and operations o
The assets and liabilities of this subsidiary included in the foregoing balance sheet are $98,052.72 and $3

In our opinion, based upon our examination, the accompanying balance sheet and related summ
1935 and the results of their operations for the period ended that date. Further, it is our opinion that
sistent with the preceding year.

Minneapolis, November 15, 1935.

ALANCE SHEET

ustin, Minnesota, and Subsidiaries

6, 1935

LIABILITIES

CURRENT:			
Accounts payable		$ 532,438.12	
Federal processing taxes		1,918,026.54	
Dividends—payable November 15, 1935		145,997.50	
Accrued taxes, etc.		133,292.87	
Provision for income taxes for current year—estimated		160,155.00	$ 2,886,910.03
RESERVES:			
For Contingencies			286,017.23
MINORITY STOCKHOLDERS' EQUITY IN CAPITAL STOCK OF SUBSIDIARY			17,283.16
CAPITAL:			
Preferred Stock—par value $100.00 Authorized 50,000 shares—cumulative			

	Class A – 6%	Class B – 7%		
Issued	$1,455,400.00	$106,500.00		
In treasury	10,000.00	27,300.00		
Outstanding	$1,445,400.00	$ 79,200.00	$1,524,600.00	

Common Stock—no par value				
Authorized	500,000 shares			
Issued	493,944 shares	$6,116,585.81		
In treasury	18,854 shares	233,469.08		
Outstanding	475,090 shares		5,883,116.73	
Surplus (of which $270,769.08 is restricted on account of capital stock in treasury)			1,878,721.29	9,286,438.02
Contingent liabilities reported $101,930.66				
				$12,479,648.44

ANY—and its subsidiaries as at October 26, 1935, and of the consolidated statement of income and
nting records of the Companies and other supporting evidence, and obtained information and explana-
he operating and income accounts for the period, but we did not make a detailed audit of all transactions.
s, such rate generally being in excess of those now being allowed for income tax purposes. The net

f a subsidiary (71.8% owned) whose business is substantially all conducted with the parent company.
0,256.61, respectively.
ary of income and surplus fairly present the consolidated position of the Companies at October 26,
the statements have been prepared in accordance with accepted accounting principles and on a basis con-

Signed (ERNST & ERNST)

SUMMARY OF INCOME AND SURPLUS

Geo. A. Hormel & Company - Austin, Minnesota and Subsidiaries

Fifty-two Weeks Ended October 26, 1935

Net Sales			$47,641,333.47
Deduct:			
Cost of goods sold (including Federal processing taxes of $4,325,017.39) selling, administrative and general expenses		$46,519,537.06	
Provision for depreciation		269,297.11	
Other charges:			
Interest	$33,912.22		
Miscellaneous Charges	76,432.03		
	$110,344.25		
Less: Miscellaneous income	88,346.74	21,997.51	46,810,831.68
			$ 830,501.79
Portion of subsidiary company loss applicable to minority interest			8,620.80
			$ 839,122.59
Income taxes:			
Provision for current period—estimated		$ 160,155.00	
Additional assessment for prior period		24,260.23	184,415.23
		NET PROFIT	$ 654,707.36
Dividends on preferred stocks			92,269.69
PROFIT APPLICABLE TO COMMON STOCK			$ 562,437.67
Dividends on common stock			476,530.75
			$ 85,906.92
Excess of cost over average assigned value of 1200 shares of common stock acquired for treasury and adjustment of 730 shares received in cancellation of employees' stock purchase notes		$ 5,452.18	
Less excess of sale price over average assigned value of 100 shares of treasury common stock sold		561.70	4,890.48
NET ADDITION TO SURPLUS			$ 81,016.44
Surplus—October 29, 1934			1,797,704.85
Surplus—October 26, 1935 (of which $270,769.08 is restricted on account of capital stock in treasury)			$ 1,878,721.29

an increase of $57,117.25 over a year ago. Net quick assets are $4,162,813.85, which is an increase of $159,243.49.

During the past several years the company has carried on an extensive building and remodeling program, the management having considered that a dual service was thereby being rendered. In the first place, it seemed that the extremely low costs in existence made that period a most profitable time during which to expand or renew facilities. In the second place, the period of extreme unemployment seemed to be the time in which a building program would render the most good to the community. As a result of this program, which placed all our facilities in extremely satisfactory condition, building and remodeling during the past year have been at a minimum.

There has been considerable discussion during the past year as to the legality of the processing taxes, which affect every industry dealing in basic commodities as defined by the Agricultural Adjustment Act. A great many companies have sued for injunctions to restrain the Government from collecting processing taxes. Many such injunctions have been granted.

Since the inception of the processing tax, the total amount of such tax assessed through your company is $8,172,245.08, which is an amount approximately equal to 88 per cent of the total capital and surplus of the company. The very fact that the accumulated amount of these taxes is so important has dissuaded the management from the idea that the amount could be recovered by the company, even though the act itself eventually be found unconstitutional. Therefore, we have taken no court action in this matter.

It has long been the conviction of your company that our economic system should provide the greatest possible dependability of employment. With this principle in mind, there has been worked out and developed over the course of the past few years a plan which is known as our "straight time" plan, with which stockholders may be familiar because of the publicity the plan has previously received.

In a word, the straight time plan is merely a program of operation which permits the employe to receive a fixed pay check each and every week, working shorter hours when work is slack and making it up by working longer hours later when work is plentiful. Straight time has not yet been made to apply to all the employees of the company, but at the close of the year, only 1,025 of the company's 3,441 employees were working by the hour.

JAY C. HORMEL
President

GEO. A. HORMEL
Chairman of the Board

BEN F. HORMEL
Senior Vice-President

JOHN G. HORMEL
Secretary

M. F. DUGAN
Treasurer

H. H. COREY
Vice-President for
The Packing Division

R. H. DAIGNEAU
Vice-President for
The Abattoir Division

E. N. STURMAN
Vice-President for
The Flavor-Sealed Division